

**ANNUAL
FINANCIAL REPORT
OF THE
CITY OF HARLAN, IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

CITY OF HARLAN, IOWA
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2013
 TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
List of Principal Officials.....	1

FINANCIAL SECTION

Independent Auditors' Report	2 – 3
Management and Discussion Analysis.....	4 – 14

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position	15
Statement of Activities	16 – 17

FUND FINANCIAL STATEMENTS

Governmental Funds Financial Statements

Balance Sheet.....	18 – 19
Reconciliation of the Balance Sheet to the Statement of Net Position.....	20
Statement of Revenues, Expenditures and Changes in Fund Balances.....	21 – 22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities.....	23

Proprietary Funds Financial Statements

Statement of Net Position.....	24
Statement of Revenues, Expenses and Changes in Net Position	25
Statement of Cash Flows	26 – 27

Fiduciary Funds Financial Statements

Combined Statement of Fiduciary Net Position	28
Statement of Changes in Fiduciary Net Position	29

Notes to Financial Statements	30 – 48
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Required Supplementary Information

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Governmental Funds and Proprietary Funds.....	49 – 50
Budget to GAAP Reconciliation	51
Notes to Required Supplementary Information – Budgetary Reporting.....	52
Schedule of Funding Progress for Retiree Health Plan.....	53

CITY OF HARLAN, IOWA
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2013
 TABLE OF CONTENTS

FINANCIAL SECTION – (CONTINUED)

	Page
Other Supplementary Information	
Governmental Non-Major Funds Combining Financial Statements	
Balance Sheet	54 – 56
Statement of Revenues, Expenditures and Changes in Fund Balances	57 – 59
Internal Service Non-Major Funds Combining Financial Statements	
Combining Statement of Net Assets	60
Combining Statement of Revenues, Expenses and Changes in Net Position	61
Combining Statement of Cash Flows	62
Fiduciary Funds	
Statement of Changes in Assets and Liabilities – Agency Funds	63
Combining Statement of Fiduciary Net Position	64
Combining Statement of Changes in Net Position	65
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66 – 67
Schedule of Findings	68 – 69

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CITY OF HARLAN

List of Principal Officials
June 30, 2013

Title	Name
Mayor	Gene Gettys
Council Member.....	Keith Kaufman
Council Member.....	Kathleen Kohorst
Council Member.....	David Pedersen
Council Member.....	Aaron Anliker
Council Member.....	Dan Schumacher
Council Member.....	Dave Miller
City Attorney	Todd Argotsinger
City Administrator/City Engineer.....	Terri Cox
City Clerk	Debra Sawyer
City Treasurer	Marjorie Ahrenholtz



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INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council
City of Harlan, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the CITY OF HARLAN, IOWA (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Harlan Municipal Utilities, (a discretely presented component unit), which statements reflect total assets of \$52,497,193 and total program revenues of \$13,764,240 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of June 30, 2013, and the respective changes in financial position, and, where

applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedule of funding progress for retiree health plan on pages 4 through 14 and 49 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, on our consideration of the City of Harlan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harlan's internal control over financial reporting and compliance.

Williams & Company P.C.
Certified Public Accountants

Le Mars, Iowa
December 4, 2013

Management's Discussion and Analysis

June 30, 2013

This discussion and analysis of the City of Harlan financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2013. We encourage the readers to consider the information presented here in conjunction with the City's financial statements that follow this report, as well as the separately issued financial statements of Harlan Municipal Utilities, a discretely presented component units of the City.

Financial Highlights

- The assets of the City of Harlan exceeded liabilities at June 30, 2013 by \$16,071,279. Of this amount, \$3,238,008 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$263,254 during the year. Of this amount, the governmental activities increased by \$99,965 and the net position of our business activities increased by \$163,289.
- The City's long-term debt increased \$2,135,000 during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's net position, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, and Parks departments, and general administration. Property Taxes finances most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here is the City's Sewer fund.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City’s basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end are available for spending. These funds are reported using the “modified accrual basis” of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City’s general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.
- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund report and the Business Type Activity we report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund report.

THE CITY AS TRUSTEE

Reporting the City’s Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the City’s government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

As stated earlier, net position may serve over time as a useful indicator of a government’s financial position. The largest part of the City’s net position reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must

be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net position for the years ended June 30, 2013 and 2012.

	General Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Current and Other Assets	\$ 7,255,543	\$ 4,123,896	\$ 2,058,765	\$ 3,149,333
Capital Assets	14,286,637	14,819,236	4,657,162	3,553,650
Total Assets	21,542,180	18,943,132	6,715,927	6,702,983
Long-Term Liabilities	7,059,462	4,741,639	2,373,732	2,509,199
Other Liabilities	225,350	2,528,368	92,027	106,905
Total Liabilities	7,284,812	7,270,007	2,465,759	2,616,104
Deferred Inflows of Resources	2,436,257	-	-	-
Net Position:				
Net Investment in Capital Assets	10,196,637	10,184,236	2,296,614	1,838,250
Restricted	340,020	735,805	-	-
Unrestricted	1,284,454	753,084	1,953,554	2,248,629
Total Net Position	\$ 11,821,111	\$11,673,125	\$ 4,250,168	\$ 4,086,879

	Totals	
	2013	2012
Current and Other Assets	\$ 9,314,308	\$ 7,273,229
Capital Assets	18,943,799	18,372,886
Total Assets	28,258,107	25,646,115
Long-Term Liabilities Outstanding	9,433,194	7,250,838
Other Liabilities	317,377	2,635,273
Total Liabilities	9,750,571	9,886,111
Deferred Inflows of Resources	2,436,257	-
Net Position:		
Net Investment in Capital Assets	12,493,251	12,022,486
Restricted	340,020	735,805
Unrestricted	3,238,008	3,001,713
Total Net Position	\$ 16,071,279	\$15,760,004

This summary reflects an increase of 1.27% for the governmental net position and an increase of 3.99% in the business-type net position. The governmental net position increase is due to airport project grant receipts and an increase in TIF revenue.

Total revenue reported in Fiscal 2013 was \$7,583,004. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities for Fiscal Year 2013 and 2012:

Revenue Source	General Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Program Revenues:				
Charges for Services	\$ 1,846,175	\$ 1,599,439	\$ 848,295	\$ 854,353
Operating Grants and Contributions	600,885	674,929	-	-
Capital Grants and Contributions	238,907	170,351	-	-
Total Program Revenues	2,685,967	2,444,719	848,295	854,353
General Revenues & Transfers				
Property Taxes	2,986,779	2,348,477	-	-
Local Option Sales Tax	559,966	485,684	-	-
Interest	7,834	5,305	-	1,905
Payment in Lieu of Tax	301,452	254,609	-	-
Gain on Sale Disposition of Assets	99,125	-	18,080	-
Miscellaneous	75,506	190,364	-	-
Transfers	(85,805)	(8,180)	85,805	8,180
Total General Revenues & Transfers	3,944,857	3,276,259	103,885	10,085
Total Revenues & Transfers:	\$ 6,630,824	\$ 5,720,978	\$ 952,180	\$ 864,438

Revenue Source	Totals	
	2013	2012
Program Revenues:		
Charges for Services	\$ 2,694,470	\$ 2,453,792
Operating Grants and Contributions	600,885	674,929
Capital Grants and Contributions	238,907	170,351
Total Program Revenues	3,534,262	3,299,072
General Revenues & Transfers:		
Property Taxes	2,986,779	2,348,477
Local Option Sales Tax	559,966	485,684
Interest	7,834	7,210
Payment in Lieu of Tax	301,452	254,609
Gain on Sale of Assets	117,205	-
Miscellaneous	75,506	190,364
Transfers	-	-
Total General Revenues & Transfers	4,048,742	3,286,344
Total Revenues & Transfers:	\$ 7,583,004	\$ 6,585,416

Property tax revenue increased due to an increase in the employee benefit levy.

Gain on sale of assets is due to the sale of land for development.

Program revenues totaled \$3,534,262 for fiscal year 2013. Governmental Activities provided \$2,685,967 and Business-Type Activities provided \$848,295.

General Revenues and Transfers for fiscal year 2013 totaled \$4,048,742. Governmental Activities provided \$3,944,857 and Business-Type Activities provided \$103,885. Property Tax Revenues for fiscal year 2013 totaled \$2,986,779.

Expenses for Fiscal 2013 totaled \$7,207,653. Expenses for General Governmental Activities totaled \$6,479,445, accounting for 89.90% of total expenses. Business-Type Activity expenses totaled \$728,208, for 10.1% of the total.

The following table shows total expenditures by Function/Program for FY 2013 and FY 2012:

	General Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Public Safety	\$ 1,316,296	\$ 1,143,888	\$ -	\$ -
Public Works	1,746,994	2,116,946	-	-
Culture and Recreation	1,028,842	1,160,659	-	-
Community & Economic Development	415,685	356,226	-	-
General Government	1,740,667	837,119	-	-
Debt Service	230,961	193,005	-	-
Sewer System	-	-	728,208	1,324,822
Total Expenditures	\$ 6,479,445	\$ 5,807,843	\$ 728,208	\$ 1,324,822

	Totals	
	2013	2012
Public Safety	\$ 1,316,296	\$ 1,143,888
Public Works	1,746,994	2,116,946
Culture and Recreation	1,028,842	1,160,659
Community & Economic Development	415,685	356,226
General Government	1,740,667	837,119
Debt Service	230,961	193,005
Sewer System	728,208	1,324,822
Total Expenditures	\$ 7,207,653	\$ 7,132,665

Expenses in the following functions changed as follows:

Public safety increased due to additional internal service expenses. Public works decreased due to reduced cost of aviation fuel purchased for resale and fewer street repairs in 2013. General government increased due to internal service expenses. Sewer fund repairs were less in 2013.

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Police, Fire, Ambulance
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development, Community Beautification, Planning and Zoning
General Government	Administration, Support Services
Debt Service	Payment of Interest
Sewer System	Operation of the Waste Water Treatment Plant/Supply Distribution System

Governmental of Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$1,316,296 and received \$178,909 in revenue, thus leaving a cost to the taxpayer of \$1,137,387 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent, Special Assessments
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$6,479,445. Of these costs, \$1,846,175 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$839,792, leaving a Net Expense of \$3,793,478 for Governmental Activities. These expenses were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	2013	2012
Governmental Activities:		
Public Safety	\$ (1,137,387)	\$ (1,046,606)
Public Works	(620,376)	(779,147)
Culture and Recreation	(695,967)	(792,029)
Community and Economic Development	(375,738)	(319,066)
General Government	(733,049)	(233,271)
Debt Service	(230,961)	(193,005)
	<hr/>	<hr/>
Total Net (Expense) Revenue Governmental Activities	(3,793,478)	(3,363,124)
General Revenues & Interfund Transfers	3,944,857	3,276,259
	<hr/>	<hr/>
Change in Net Position	\$ 151,379	\$ (86,865)

Total resources available during the year to finance governmental operations were \$18,300,556 consisting of Net Position at July 1, 2012, as restated, of \$11,669,732, Program Revenues of \$2,685,967 and General Revenues and Transfers of \$3,944,857. Total Governmental Activities during the year expended \$6,479,445; thus, Net Position was increased by \$151,379 to \$11,821,111.

Business Type Activities

Business Type Activities increased the City's net position by \$223,972.

The cost of all Proprietary Activities this year was \$728,208. As shown in the Statement of Activities, the amounts paid by users of the systems were \$848,295, resulting in total Net Revenue for Business Type Activities of \$120,087. The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business-Type Activities	Net (Expense) Revenue	
	2013	2012
Sewer	\$ 120,087	\$ (469,695)
General Revenues & Interfund Transfers	103,885	10,814
	<hr/>	<hr/>
Change in Net Position	\$ 223,972	\$ (458,881)

Total resources available during the year to finance Proprietary Fund activities were \$4,978,376 consisting of Net Position at July 1, 2012, as restated, of \$4,026,196, Program Revenues of \$848,295 and General Revenues and Transfers of \$103,885. Total Proprietary Fund Activities during the year expended \$728,208; thus Net Position was increased by \$223,972 to \$4,250,168.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$4,126,298. The combined Governmental Funds balance increased \$3,054,186 from the prior year.

The General Fund is the primary operating fund of the City. During the year, revenues exceeded expenditures in the General fund by \$359,450, due to increased transfers from other funds.

The Employee Benefit Fund is used to account for the collection and disbursement of property tax dollars exclusively for payment of employee benefits. During the year, expenditures exceeded revenues by \$274,266, due to increased transfers out to general fund.

The Urban Renewal fund is used for the collection and disbursement of TIF financed projects.

The Debt Service Fund is used to account for collection of general property taxes for the repayment of general obligation debt. The \$2,584,010 increase in fund balance is due to issuance of crossover refunding bonds in 2013.

General Fund Budgetary Highlights

Comparing the fiscal year 2013 original (adopted) city wide amount of \$24,702,595 to the final budget amount of \$26,464,632 shows a net increase of \$1,762,037.

The following table shows the government wide budget variances by program:

Disbursements	Amended Budget	Actual	Variance
Public Safety	\$ 1,131,642	\$ 1,136,067	\$ (4,425)
Public Works	1,269,078	1,240,177	28,901
Culture and Recreation	917,830	812,137	105,693
Community and Economic Development	60,000	417,695	(357,695)
General Government	728,640	725,572	3,068
Debt Service	1,106,616	781,661	324,955
Capital Projects	60,000	101,249	(41,249)
Business-Type Activities	21,190,826	20,376,512	814,314
Total Disbursements	\$ 26,464,632	\$ 25,591,070	\$873,562

The budgeted increase in disbursements is due to a sewer capital project that was not initially budgeted and for an increase in debt service payments.

During the year there was a \$1,762,037 increase in appropriations between the original and final amended budget.

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2013, was \$18,943,799 (net of accumulated depreciation). The gross additions to capital assets for fiscal 2013 are as follows:

	General Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Building and Equipment	216,594	715,881	1,317,778	1,790,971	1,534,372	2,506,852
Infrastructure	-	-	-	-	-	-
Construction in Progress	121,235	111,396	-	43,887	121,235	155,283
Total Gross Additions	\$ 337,829	\$ 827,277	\$1,317,778	\$1,834,858	\$1,655,607	\$2,662,135

Construction in Progress at June 30, 2013 for governmental activities consisted of costs associated with airport improvements.

See Note 6 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end the City had \$9,225,000 of general obligation debt outstanding. Of this amount, \$6,905,000 comprises debt paid by property taxes or TIF revenue. The remainder of \$2,320,000 is debt being paid by sewer revenue.

Debt administration is on track, with all of the City debt repaid within the next 15 years. This rapid repayment, when combined with the use of TIF has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$12,536,834. With outstanding General Obligation Debt applicable to this limit of \$6,410,000, we are utilizing 73.6% of this limit. More detailed information on debt administration is provided in Note 7 of the financial statements.

ECONOMIC FACTORS

The City of Harlan works hard to maintain a positive approach to growth and development. Projects being reviewed for future completion to enhance the community include:

- 30-35 new housing starts in the Christiansen Development
- Updated Christmas lighting downtown
- Walking trail and other park improvements and swimming pool rehabilitation
- Airport runway overlay
- New police department building
- Sewer plant upgrade

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Debra Sawyer at 712-755-5137.

CITY OF HARLAN, IOWA
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		Harlan Municipal Utilities
ASSETS				
Cash and Cash Equivalents	1,581,607	\$ 2,016,725	\$ 3,598,332	\$ 10,441,669
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	86,269	1,301	87,570	1,631,204
Taxes	20,695	-	20,695	-
Subsequent Year Taxes	2,436,257	-	2,436,257	-
Estimated Unbilled Usage	-	-	-	325,300
Internal Balances	36,108	(36,108)	-	-
Due from Other Governmental Agencies	136,810	56,324	193,134	-
Inventories	41,831	5,490	47,321	735,476
Prepaid Assets	157,192	15,033	172,225	138,916
Restricted Assets:				
Cash and Cash Equivalents	-	-	-	4,673,222
Investments	2,758,774	-	2,758,774	-
Bond Issue Costs	-	-	-	170,026
Land	-	22,500	22,500	-
Construction in Progress	232,632	-	232,632	6,328,059
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	14,054,005	4,634,662	18,688,667	28,053,321
Total Assets	21,542,180	6,715,927	28,258,107	52,497,193
LIABILITIES				
Accounts Payable	101,324	77,189	178,513	1,094,069
Accrued Wages	86,124	8,776	94,900	158,172
Other Accrued Expenses	-	1,997	1,997	126,023
Due to Other Governments	-	-	-	340,916
Claims Incurred But Not Reported	21,025	-	21,025	-
Accrued Interest Payable	16,877	4,065	20,942	-
Payables from Restricted Assets:				
Customer Deposits	-	-	-	44,680
Accrued Revenue Bond Interest	-	-	-	181,326
Noncurrent Liabilities:				
Due within one year:				
Revenue Bonds Payable	-	-	-	840,967
General Obligation Bonds	395,000	140,000	535,000	-
Compensated Absences and Benefits	80,306	13,184	93,490	-
Due in more than one year:				
Revenue Bonds Payable	-	-	-	17,345,593
General Obligation Bonds	6,510,000	2,220,548	8,730,548	-
Other Post Employment Benefits	74,156	-	74,156	-
Total Liabilities	7,284,812	2,465,759	9,750,571	20,131,746
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - subsequent year taxes	2,436,257	-	2,436,257	-
Total Deferred Inflows of Resources	2,436,257	-	2,436,257	-
NET POSITION				
Net Investment in Capital Assets	10,196,637	2,296,614	12,493,251	16,194,820
Restricted for:				
Employee Benefits	2,682	-	2,682	-
Local Option Sales Tax Purposes	160,762	-	160,762	-
Streets	176,576	-	176,576	-
Unrestricted	1,284,454	1,953,554	3,238,008	13,813,620
Total Net Position	\$ 11,821,111	\$ 4,250,168	\$ 16,071,279	\$ 32,365,447

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 1,316,296	\$ 112,580	\$ 66,329	\$ -
Public Works	1,746,994	392,637	495,074	238,907
Culture and Recreation	1,028,842	293,393	39,482	-
Community and Economic Development	415,685	39,947	-	-
General Government	1,740,667	1,007,618	-	-
Debt Service	230,961	-	-	-
Total governmental activities	<u>6,479,445</u>	<u>1,846,175</u>	<u>600,885</u>	<u>238,907</u>
Business-Type Activities:				
Sewer System	728,208	848,295	-	-
Total Business-Type Activities:	<u>728,208</u>	<u>848,295</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>7,207,653</u>	<u>2,694,470</u>	<u>600,885</u>	<u>238,907</u>
Component Unit:				
Harlan Municipal Utilities	<u>\$ 12,276,999</u>	<u>\$ 13,764,240</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:
Property Taxes
Local Option Sales Tax
Hotel/Motel Taxes
Unrestricted Interest
Payments in Lieu of Tax
Gain on Disposition of Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net position

Net Position - beginning

Prior Period Adjustment

Net Position - beginning, as restated

Net Position - ending

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	Component Unit Harlan Municipal Utilities
\$ (1,137,387)		\$ (1,137,387)	
(620,376)		(620,376)	
(695,967)		(695,967)	
(375,738)		(375,738)	
(733,049)		(733,049)	
(230,961)		(230,961)	
<u>(3,793,478)</u>		<u>(3,793,478)</u>	
	\$ 120,087	120,087	
	<u>120,087</u>	<u>120,087</u>	
<u>(3,793,478)</u>	<u>120,087</u>	<u>(3,673,391)</u>	
			<u>\$ 1,487,241</u>
2,986,779	-	2,986,779	-
512,572	-	512,572	-
47,394	-	47,394	-
7,834	-	7,834	51,631
301,452	-	301,452	-
99,125	18,080	117,205	-
75,506	-	75,506	-
(85,805)	85,805	-	-
<u>3,944,857</u>	<u>103,885</u>	<u>4,048,742</u>	<u>51,631</u>
151,379	223,972	375,351	1,538,872
11,721,146	4,086,879	15,808,025	30,826,575
<u>(51,414)</u>	<u>(60,683)</u>	<u>(112,097)</u>	<u>-</u>
<u>11,669,732</u>	<u>4,026,196</u>	<u>15,695,928</u>	<u>30,826,575</u>
<u>\$ 11,821,111</u>	<u>\$ 4,250,168</u>	<u>\$ 16,071,279</u>	<u>\$ 32,365,447</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
BALANCE SHEET
Governmental Funds
June 30, 2013

	General	Debt Service
Assets		
Cash and Cash Equivalents	\$ 496,857	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	50,640	2,657
Taxes	12,780	-
Subsequent Year Taxes	1,367,078	562,227
Due from Other Funds	-	68,930
Due from Other Governmental Agencies	-	-
Restricted Assets:		
Investments		2,758,774
Inventories	2,757	-
Total Assets	1,930,112	3,392,588
Liabilities		
Liabilities		
Accounts Payable	12,354	-
Accrued Wages	78,502	-
Due to Other Funds	-	2,657
Total Liabilities	90,856	2,657
Deferred Inflows of Resources		
Unavailable revenue - subsequent year taxes	1,367,078	562,227
Total Deferred Inflows of Resources	1,367,078	562,227
Fund Balances		
Non-Spendable:		
Inventories	2,757	-
Restricted:		
Debt Service	-	2,827,704
Employee Benefits	-	-
Local Option Sales Tax Purposes	-	-
Streets	-	-
Committed:		
Fire Activities	50,494	-
Assigned:		
RAGBRAI	27,242	-
Capital Projects	-	-
Unassigned	391,685	-
Total Fund Balances	472,178	2,827,704
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,930,112	\$ 3,392,588

See Accompanying Notes to Financial Statements

Special Revenue		Other Governmental Funds	Total Governmental Funds				
Employee Benefits	Urban Renewal						
\$	-	\$	-	\$	686,155	\$	1,183,012
	-		-		150		53,447
	6,189		1,726		-		20,695
	506,952		-		-		2,436,257
	-		-		83,597		152,527
	-		-		132,485		132,485
	-		-		-		2,758,774
	-		-		39,074		41,831
	513,141		1,726		941,461		6,779,028
	-		-		34,398		46,752
	-		-		7,622		86,124
	3,507		1,726		75,707		83,597
	3,507		1,726		117,727		216,473
	506,952		-		-		2,436,257
	506,952		-		-		2,436,257
	-		-		39,074		41,831
	-		-		-		2,827,704
	2,682		-		-		2,682
	-		-		160,762		160,762
	-		-		148,434		148,434
	-		-		-		50,494
	-		-		-		27,242
	-		-		570,577		570,577
	-		-		(95,113)		296,572
	2,682		-		823,734		4,126,298
\$	513,141	\$	1,726	\$	941,461	\$	6,779,028

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds (page 19)	\$ 4,126,298
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,093,408
Internal service funds are used by management to fund and maintain the City's equipment replacement fund and medical costs provided to user departments and are included in the statement of net assets.	1,520,552
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.	157,192
Accrued interest expense from the balance sheet that require current financial resources from governmental activities.	(16,877)
Other Post Employment Benefits not due and payable in the current period and therefore are not reported in the funds.	(74,156)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	\$ (6,905,000)
Compensated Absences	(80,306)
	<u>(6,985,306)</u>
Total Net Position - Governmental Activities (page 15)	<u><u>\$ 11,821,111</u></u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2013

	General	Debt Service
Revenue:		
Taxes	\$ 1,330,200	\$ 308,282
Special Assessments	1,639	-
Licenses and Permits	79,534	-
Intergovernmental Revenue	126,331	-
Charges for Services	464,063	-
Payments in Lieu of Taxes	301,452	-
Fines and Forfeits	18,999	-
Contributions	36,680	-
Refunds/Reimbursements	8,934	-
Revenue from Use of Property	72,819	-
Interest on Investments	7,834	-
Miscellaneous	51,803	-
Total Revenue	<u>2,500,288</u>	<u>308,282</u>
Expenditures:		
Public Safety	1,162,720	-
Public Works	676,543	-
Culture and Recreation	795,276	-
Community and Economic Development	73,341	-
General Government	715,492	-
Capital Projects	-	-
Debt Service	-	773,963
Total Expenditures	<u>3,423,372</u>	<u>773,963</u>
Excess (Deficiency) of revenues over expenditures	<u>(923,084)</u>	<u>(465,681)</u>
Other financing sources (uses):		
Issuance of Debt	-	2,815,000
Proceeds from Sale of Capital Assets	5,075	-
Transfers In	1,277,459	234,691
Transfers Out	-	-
Total other financing sources (uses)	<u>1,282,534</u>	<u>3,049,691</u>
Net Change in Fund Balance	359,450	2,584,010
Fund balances - beginning of year	87,728	243,694
Prior Period Adjustment	<u>25,000</u>	<u>-</u>
Fund balances - beginning of year (as restated)	<u>112,728</u>	<u>243,694</u>
Fund balances - end of year	<u>\$ 472,178</u>	<u>\$ 2,827,704</u>

See Accompanying Notes to Financial Statements

Special Revenue		Other		Total	
Employee	Urban	Governmental	Governmental	Governmental	Governmental
Benefits	Renewal	Funds	Funds	Funds	Funds
\$ 649,013	\$ 700,946	\$ 512,572	\$ 3,501,013		
-	-	-	1,639		
-	-	-	79,534		
-	-	733,981	860,312		
-	-	-	464,063		
-	-	-	301,452		
-	-	-	18,999		
-	-	1,106	37,786		
-	-	-	8,934		
-	-	-	72,819		
-	-	-	7,834		
-	-	22,882	74,685		
649,013	700,946	1,270,541	5,429,070		
-	-	-	1,162,720		
-	-	455,515	1,132,058		
-	-	28,559	823,835		
-	232,723	109,621	415,685		
1,267	-	54,947	771,706		
-	-	121,235	121,235		
-	-	-	773,963		
1,267	232,723	769,877	5,201,202		
647,746	468,223	500,664	227,868		
-	-	-	2,815,000		
-	-	92,048	97,123		
-	-	123,736	1,635,886		
(922,012)	(469,232)	(330,447)	(1,721,691)		
(922,012)	(469,232)	(114,663)	2,826,318		
(274,266)	(1,009)	386,001	3,054,186		
276,948	1,009	462,733	1,072,112		
-	-	(25,000)	-		
276,948	1,009	437,733	1,072,112		
\$ 2,682	\$ -	\$ 823,734	\$ 4,126,298		

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 22) \$ 3,054,186

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for capital assets	\$ 121,235	
Depreciation expense	(654,518)	
		(533,283)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues. (1,662)

The effect of the change in prepaid insurance which is not reported in the governmental funds as it is not available to provide current financial resources. 3,970

Long-term accrual of other post employment benefits liability in the governmental funds as it does not consume current financial resources. (37,078)

Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (1,998)

Governmental funds do not reflect the change in accrued compensated absences as it does not consume current financial resources. The Statement of Activities reflects the change in accrued compensated absences through expenditures. (10,745)

Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and are included in the statement of net position. The net revenue of the internal service funds is reported with governmental activities. (52,011)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The amount by which proceeds exceeded payments in the current year is as follows:

Proceeds from debt issuance	(2,815,000)	
Repayments of long-term debt	545,000	
		(2,270,000)

Change in net assets of governmental activities (page 17) \$ 151,379

CITY OF HARLAN, IOWA
STATEMENT OF NET POSITION
Proprietary Funds
June 30, 2013

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 2,016,725	\$ 398,595
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	1,301	32,822
Due from Other Funds	32,822	-
Due from Other Governmental Agencies	56,324	4,325
Inventories	5,490	-
Prepaid Assets	15,033	-
Total Current Assets	<u>2,127,695</u>	<u>435,742</u>
Noncurrent Assets		
Land	22,500	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,634,662	1,193,229
Total Noncurrent Assets	<u>4,657,162</u>	<u>1,193,229</u>
Total Assets	<u>6,784,857</u>	<u>1,628,971</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	77,189	54,572
Accrued Wages	8,776	-
Other Accrued Expenses	1,997	-
Due to Other Funds	68,930	32,822
Accrued Interest Payable	4,065	-
Claims Incurred But Not Reported	-	21,025
Total Current Liabilities	<u>160,957</u>	<u>108,419</u>
Noncurrent Liabilities:		
Due within one year:		
General Obligation Bonds	140,000	-
Compensated Absences and Benefits	13,184	-
Due in more than one year:		
General Obligation Bonds	2,220,548	-
Total Noncurrent Liabilities	<u>2,373,732</u>	<u>-</u>
Total Liabilities	<u>2,534,689</u>	<u>108,419</u>
NET POSITION		
Net Investment in Capital Assets	2,296,614	1,193,229
Unrestricted	1,953,554	327,323
Total Net Position	<u>\$ 4,250,168</u>	<u>\$ 1,520,552</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
Operating Revenues:		
Charges for Services	\$ 846,326	\$ 235,027
Miscellaneous	1,969	12,685
Reimbursement from Employees/Insurance	-	932,331
Total Operating Revenue	<u>848,295</u>	<u>1,180,043</u>
Operating Expenses:		
Public Safety	-	21,926
Public Works	-	34,575
Culture and Recreation	-	29,207
General Government	-	942,492
Employee Services	284,325	-
Contract Services	43,046	-
Repairs and Maintenance	190,137	-
Miscellaneous	5,421	-
Depreciation	156,423	215,909
Total Operating Expenses	<u>679,352</u>	<u>1,244,109</u>
Operating Income (Loss)	168,943	(64,066)
Non-Operating Income (Expense):		
Gain on Disposition of Property	18,080	-
Interest Expense	(48,856)	-
Total Non-Operating Income	<u>(30,776)</u>	<u>-</u>
Income (Loss) before Contributions and Transfers	138,167	(64,066)
Other Financing Sources		
Proceeds from Sale of Capital Assets	-	2,002
State Grant	-	10,053
Transfers In	85,805	-
Total Other Financing Sources (Uses)	<u>85,805</u>	<u>12,055</u>
Change in Net Position	<u>223,972</u>	<u>(52,011)</u>
Net Position - Beginning	4,086,879	1,572,563
Prior Period Adjustment	(60,683)	-
Net Position - Beginning, as Restated	<u>4,026,196</u>	<u>1,572,563</u>
Net Position - Ending	<u>\$ 4,250,168</u>	<u>\$ 1,520,552</u>

See Accompanying Notes to Financial Statements

CITY OF HARLAN, IOWA
STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 916,249	\$ 1,130,211
Cash Paid to Suppliers for Goods and Services	(256,000)	(74,108)
Cash Paid to Employees for Services	(281,446)	(932,331)
Other Nonoperating Income	-	12,685
Net Cash Provided by Operating Activities	<u>378,803</u>	<u>136,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,273,891)	(216,593)
Proceeds from Sale of Capital Assets	32,036	2,002
Proceeds from Grant	-	10,053
Principal Paid on Notes and Bonds	(135,000)	-
Interest Paid on Notes and Bonds	(48,259)	-
Net Cash (Used) for Capital and Related Financing Activities	<u>(1,425,114)</u>	<u>(204,538)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers from Other Funds	85,805	-
Due From (To) Other Governments	(56,324)	-
Due From (To) Other Funds	36,108	32,822
Net Cash Provided by Non-Capital Financing Activities	<u>65,589</u>	<u>32,822</u>
Net (Decrease) in Cash and Cash Equivalents	(980,722)	(35,259)
Cash and Cash Equivalents at Beginning of Year	<u>2,997,447</u>	<u>433,854</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,016,725</u>	<u>\$ 398,595</u>

(Continued)

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2013

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Internal Service</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	<u>\$ 168,943</u>	<u>\$ (64,066)</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	156,423	215,909
(Increase) Decrease in Assets:		
Accounts Receivable	67,954	(37,147)
Prepaid Expenses	1,425	-
Increase (Decrease) in Liabilities		
Accounts Payable	(18,821)	24,773
Accrued Wages	450	-
Accrued Compensated Absences	2,429	-
Claims Incurred But Not Reported	-	(3,012)
Total Adjustments	<u>209,860</u>	<u>200,523</u>
Net Cash Provided by Operating Activities	<u>\$ 378,803</u>	<u>\$ 136,457</u>

CITY OF HARLAN, IOWA
COMBINED STATEMENT OF FIDUCIARY NET POSITION
Fiduciary Funds
June 30, 2013

	<u>Agency Fund</u>		
	Flex	Private Purpose	Totals
	Spending	Trust Funds	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 971	\$ 28,420	\$ 29,391
Total Current Assets	<u>971</u>	<u>28,420</u>	<u>29,391</u>
LIABILITIES			
Current Liabilities:			
Other Payables	971	-	971
Total Current Liabilities	<u>971</u>	<u>-</u>	<u>971</u>
NET POSITION			
Restricted - Held In Trust	-	28,420	28,420
Total Net Position	<u>\$ -</u>	<u>\$ 28,420</u>	<u>\$ 28,420</u>

CITY OF HARLAN, IOWA
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 Fiduciary Funds
 For the Year Ended June 30, 2013

	<u>Private Purpose Trust Funds Totals</u>
Additions	
Contributions	\$ 12,257
Total Additions	<u>12,257</u>
Deductions	
Public Safety	3,567
Culture and Recreation	<u>6,917</u>
Total Deductions	<u>10,484</u>
Change in Net Position	1,773
Net Position Beginning of Year	<u>26,647</u>
Net Position End of Year	<u>\$ 28,420</u>

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harlan, Iowa is a political subdivision of the State of Iowa located in Shelby County, and was incorporated in 1879, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government with the mayor and council members elected on a non-partisan basis. The City administers the following functions as authorized by its charter: public safety, public works, culture and recreation, community and economic development and general government services. The City also has a municipal sewer utility system, which is governed by the City Council.

The City's financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Harlan, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Harlan, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The government-wide financial statements include the Harlan Municipal Utilities as a component unit. The Harlan Municipal Utilities is a legally separate organization. The board of the Harlan Municipal Utilities is appointed by the Harlan City Council. Iowa Statutes provide for circumstances whereby the City can impose their will on the Harlan Municipal Utilities. The Harlan Municipal Utilities can create a potential financial benefit or burden on the City. As a component unit, the Harlan Municipal Utilities financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended June 30, 2013. Complete financial statements are on file at Harlan Municipal Utilities.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards and Commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission, and the Shelby County Solid Waste Agency Board.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax, intergovernmental revenues, and other nonexchange revenues are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The City's general, special revenue, debt service, and capital projects are classified as governmental activities. The City's equipment revolving internal service fund and group insurance internal service fund are also classified as a governmental-type activities.

The Statement of Net Position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The City first uses restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year activities.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major governmental funds:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.
- 2) Debt Service Fund - Accounts for the accumulation of resources for and the payment of general obligation debt principal, interest and related costs.
- 3) Special Revenue Funds:

Employee Benefits Fund – Accounts for taxes levied for employee benefits.

Urban Renewal Fund – Accounts for property taxes received to be expended for public improvements, construction of public infrastructure, as well as, economic development opportunities.

The City reports the following major proprietary (enterprise) funds:

The Sewer Utility is used to account for the operation and maintenance of the City's sewer system.

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

The City's internal service funds are presented in the proprietary fund financial statements.

Equipment Revolving Fund – Accounts for equipment purchases for various departments of the City.

Group Insurance Fund – Accounts for funding and maintenance of the City's self-funded health insurance provided to City Employees.

Since the principal users of both funds are the City's governmental activities, the financial statements of both internal service funds are consolidated in the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services are reported in the appropriate functional activity.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City has the following private purpose trust funds:

C. Hansen / Schildberg Trust	Police Trust
Library Trust	Loree / Poynter Trust
Beebe Trust	

The City also has the following agency fund:

Flex Fund – to account for assets held by the City as an agent for individuals.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis. The City's internal service funds are presented in the proprietary fund financial statements.

Fiduciary funds are used to report assets held in an agency or custodial capacity for others and, therefore, these funds are not available to support City programs.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Custodial Credit Risk – The City has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss of public funds.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March 2012. Any county collections on the 2012-2013 tax levy remitted to the City within 60 days subsequent to June 30, 2013, are recorded as property tax revenue.

Customer Accounts and Unbilled Usage – Accounts receivable in the Enterprise Funds includes services billed prior to June 30, 2013 and an estimate of services provided through June 30, 2013 but not billed.

Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent certain transactions between funds have not been paid or received as of June 30, 2013, balances of interfund amounts payable or receivable have been recorded as “due to other funds” and “due from other funds”, respectively in the fund financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2013 are recorded as prepaid items.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 for general capital assets and \$25,000 for infrastructure assets and estimated useful lives in excess of one year. Depreciation expense is calculated using the straight-line method over the following useful lives:

Buildings	39 – 150 Years
Machinery & Equipment	5 – 40 Years
Infrastructure	20 – 100 Years

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon lapse of available period. Compensatory time for non-exempt and exempt employers will be earned and accrued from January 1 to July 1 and July 1 to January 1 for use in the consecutive six months following the accrual period. Time for non-exempt employees is accrued at time and a half to be paid out to employees after the six month period of use has expired. Exempt employees are required to use their compensatory time or forfeit it at the end of the six months. A liability is recorded when incurred in the government-wide and proprietary fund financial statement. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid by the General Fund and Road Use Tax Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Equity – Fund balances for each of the City’s governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed Fund Balance* – amounts that can be spent only for specific purposes determined by formal action of the government’s highest level of decision making authority.
- *Assigned fund balance* – amounts the City intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts can be reported only in the City’s General Fund.

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used.

Interfund Transactions - Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Public Safety, Community and Economic Development and Capital Project functions.

F. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, special assessments, other taxes and other income. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City's deposits at June 30, 2013, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The City's investments consisted of state and local government securities held in escrow during the period of the crossover refunding totaling \$2,756,774.

Note 3 - RECEIVABLES

Receivables at June 30, 2013 are net of allowance for uncollectibles. The allowance for uncollectibles for the enterprise funds was \$0 as the City considers all receivables to be collectible at June 30, 2013.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 4 - DUE FROM OTHER GOVERNMENTS

At June 30, 2013, amounts due from other governments were as follows:

Due from the Iowa Department of Revenue for Road Use Tax allocation	\$ 41,815
Due from the Iowa Department of Revenue for State and Federal Grant Projects	75,641
Due from the Iowa Department of Revenue for Local Option Sales taxes	75,678
Total Governmental Funds	\$ 193,134

Note 5 - INTERFUND RECEIVABLES AND PAYABLES

As of June 30, 2013 short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Nonmajor Governmental	Debt Service	\$ 2,657
Nonmajor Governmental	Employee Benefits	3,507
Nonmajor Governmental	Urban Renewal	1,726
Nonmajor Governmental	Nonmajor Governmental	75,707
Debt Service	Sewer	68,930
Sewer	Equipment Revolving	32,822
		\$ 185,349

The purpose of the interfund balances is to help short-term cash flow shortages of various funds.

Note 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

Governmental Activities	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Construction in progress	\$ 111,397	\$ 121,235	\$ -	\$ 232,632
Total capital assets not being depreciated	111,397	121,235	-	232,632
Capital assets being depreciated:				
Buildings & equipment	11,142,271	216,594	-	11,358,865
Infrastructure	20,161,636	-	-	20,161,636
Total capital assets being depreciated	31,303,907	216,594	-	31,520,501
Less accumulated depreciation for:				
Buildings & equipment	4,199,086	482,195	-	4,681,281
Infrastructure	12,396,982	388,233	-	12,785,215
Total accumulated depreciation	16,596,068	870,428	-	17,466,496
Total capital assets being depreciated, net	14,707,839	(653,834)	-	14,054,005
Governmental activities capital assets, net	\$ 14,819,236	\$ (532,599)	\$ -	\$ 14,286,637

Construction in progress is related to the airport improvement project.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 6 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Public Safety	\$ 13,999
Public Works, which includes the depreciation of infrastructure	471,925
Culture and Recreation	168,594
Governmental Activities Depreciation Expense by Function	<u>654,518</u>
Internal Service – Equipment Revolving Fund	215,910
Total governmental activities - depreciation expense	<u>\$ 870,428</u>

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 22,500	\$ -	\$ -	\$ 22,500
Construction in progress	43,887	-	43,887	-
Total capital assets not being depreciated	<u>66,387</u>	-	<u>43,887</u>	<u>22,500</u>
Capital assets being depreciated:				
Buildings and equipment	4,746,999	1,317,778	24,423	6,040,354
Infrastructure	1,778,759	-	-	1,778,759
Total capital assets being depreciated	<u>6,525,758</u>	<u>1,317,778</u>	<u>24,423</u>	<u>7,819,113</u>
Less: Accumulated depreciation for:				
Buildings & equipment	2,088,212	121,321	10,467	2,199,066
Infrastructure	950,283	35,102	-	985,385
Total accumulated depreciation	<u>3,038,495</u>	<u>156,423</u>	<u>10,467</u>	<u>3,184,451</u>
Total capital assets being depreciated, net	<u>3,487,263</u>	<u>1,161,355</u>	<u>13,956</u>	<u>4,634,662</u>
Governmental activities capital assets, net	<u>\$ 3,553,650</u>	<u>\$ 1,161,355</u>	<u>\$ 57,843</u>	<u>\$ 4,657,162</u>

Construction of progress is related to the airport improvement project.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 6 - CAPITAL ASSETS (Continued)

A summary of changes in capital assets for the discretely presented component unit is as follows:

Harlan Municipal Utilities	Balance			Balance
	July 1, 2012	Additions	Deletions	June 30, 2013
Discretely Presented Component Unit:				
Capital assets not being depreciated:				
Construction in Progress	\$ 10,102,261	\$ 6,328,059	\$ 10,102,261	\$ 6,328,059
Total capital assets not being depreciated	10,102,261	6,328,059	10,102,261	6,328,059
Capital assets being depreciated:				
Property, plant & equipment	49,092,036	10,015,302	-	59,107,338
Total capital assets being depreciated	49,092,036	10,015,302	-	59,107,338
Less: Accumulated depreciation for:				
Property, plant & equipment	29,592,506	1,461,511	-	31,054,017
Total accumulated depreciation	29,592,506	1,461,511	-	31,054,017
Total capital assets being depreciated, net	19,499,530	8,553,791	-	28,053,321
Governmental activities capital assets, net	\$ 29,601,791	\$ 14,881,850	\$ 10,102,261	\$ 34,381,380

Reconciliation of Net Investment in Capital Assets:

	Governmental	Business-Type	Component
	Activities	Activities	Unit
Land	\$ -	\$ 22,500	\$ -
Construction in Progress	232,632	-	6,328,059
Capital Assets (net of accumulated depreciation)	14,054,005	4,634,662	28,053,321
Less: General Obligation Bonds Payable	6,905,000	2,360,548	-
Revenue Bonds & Capital Loan Notes	-	-	18,186,560
Add: Crossover Refunding Bonds	2,815,000	-	-
Net Investment in Capital Assets	\$ 10,196,637	\$ 2,296,614	\$ 16,194,820

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 7 - LONG-TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and projects. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the City.

New Debt Issues

On May 1, 2013 the City issued \$2,815,000 of General Obligation Bonds, Series 2013 with an average interest rate of 1.75%, with annual maturities from June 2014 through June 2024. The net proceeds were used to crossover refund the 2007 General Obligation Bonds. The crossover date is May 2015. The net proceeds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The net present value of the cash flow savings is \$278,198.

General obligation bonds outstanding as of June 30, 2013 are as follows:

Primary Government:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/13	Due Within One Year
Governmental Activities						
General Obligation Debt						
Corporate purpose bonds	08/07/07	06/01/27	4.00 – 4.30%	\$ 3,850,000	\$ 3,080,000	\$ 235,000
Corporate purpose bonds	03/16/09	06/01/14	2.20 – 2.60%	530,000	110,000	110,000
Corporate purpose bonds	06/01/11	06/01/26	1.20% 3.80%	990,000	900,000	50,000
Corporate purpose bonds	05/01/13	06/01/22	.6 – 2.35%	\$ 2,815,000	2,815,000	-
Total Governmental Activities – General Obligation Debt					<u>\$ 6,905,000</u>	<u>\$ 395,000</u>
Business-Type Activities						
General Obligation Debt						
Corporate purpose bonds	06/28/12	06/01/27	2.00 – 2.50%	\$ 2,455,000	<u>\$ 2,320,000</u>	<u>\$ 140,000</u>

The balance shown on the Statement of Net Position is gross of unamortized bond premiums of \$40,548.

Debt service requirements to maturity for general obligation bonds are as follows:

Primary Government	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
Years				
2014	\$ 395,000	\$ 208,812	\$ 140,000	\$ 48,778
2015	2,905,000	191,670	140,000	45,978
2016	275,000	183,457	150,000	43,178
2017	285,000	173,742	155,000	40,178
2018	280,000	162,817	155,000	37,078
2019-2023	1,495,000	619,211	830,000	137,490
2024-2028	1,270,000	193,643	750,000	45,285
Total	<u>\$ 6,905,000</u>	<u>\$ 1,733,352</u>	<u>\$ 2,320,000</u>	<u>\$ 397,965</u>

The City's computed legal debt limit as of June 30, 2013 is \$12,536,834 of which \$6,410,000 is committed for outstanding general obligation debt.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 7 - LONG-TERM DEBT (Continued)

Revenue Bond Covenants

Component Unit:

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. During the year ended June 30, 2013, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2013 are as follows:

Component Unit:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/13	Due Within One Year
Electric Fund						
Electric Revenue Bond, Series 2006	12/5/06	10/1/17	3.70-4.05%	\$ 1,280,000	\$ 650,000	\$ 43,312
Electric Revenue Bond, Series 2010A	6/1/10	10/1/24	3.0-4.25%	8,285,000	8,085,000	538,734
Electric Revenue Bond, Series 2010B	6/1/10	10/1/15	2.0-2.5%	2,260,000	1,395,000	92,954
Total Electric Bonds & Contracts					10,130,000	675,000
Water Fund:						
Water Revenue Bond, Series 1999	7/1/99	7/1/14	4.85-5.00%	1,600,000	145,000	-
Water Revenue Bond, Series 2004	4/15/04	7/1/16	1.40-4.10%	670,000	205,000	-
Water State Revolving Fund	5/16/12	7/1/32	3.0%	7,035,000	6,221,859	1,000
Total Water Bonds					6,571,859	1,000
Telecommunications Fund:						
Communications Utility Revenue Capital Loan Notes, Series 2012	3/29/12	4/1/22	3.25%	\$ 1,649,667	1,484,701	164,967
Total Telecommunications Fund					\$18,186,560	\$ 840,967

Debt service requirements to maturity for revenue bonds are as follows:

Component Unit:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 675,000	\$ 350,379	\$ 1,000	\$ 192,340	\$ 164,967	\$ 48,253
2015	695,000	333,295	289,000	220,263	164,967	42,891
2016	715,000	314,438	295,000	209,510	164,967	37,530
2017	750,000	292,325	305,000	199,810	164,967	32,169
2018	775,000	268,040	315,000	190,125	164,967	26,807
2019-2023	4,435,000	892,713	1,740,000	799,950	659,866	53,614
2024-2028	2,085,000	89,529	3,626,859	701,550	-	-
Total	\$10,130,00	\$ 2,540,719	\$6,571,859	\$2,513,548	\$ 1,484,701	\$ 241,264

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 7 - LONG-TERM DEBT (Continued)

The water revenue bonds have not been fully drawn down as of June 30, 2013.

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 4,635,000	\$ 2,815,000	\$ 545,000	\$ 6,905,000	\$ 395,000
Other Post Employee Benefits	37,078	37,078	-	74,156	-
Compensated Absences	69,561	80,306	69,561	80,306	80,306
Long-Term Liabilities	<u>\$ 4,741,639</u>	<u>\$ 2,932,384</u>	<u>\$ 614,561</u>	<u>\$ 7,059,462</u>	<u>\$ 475,306</u>
Business-Type Activities:					
General Obligation Bonds	\$ 2,455,000	\$ -	\$ 135,000	\$ 2,320,000	\$ 140,000
Compensated Absences	10,755	13,184	10,755	13,184	13,184
Other Post Employment Benefits	<u>\$ 2,465,755</u>	<u>\$ 13,184</u>	<u>\$ 145,755</u>	<u>\$ 2,333,184</u>	<u>\$ 153,184</u>
Component Unit:					
Electric Revenue Bonds	\$10,790,000	\$ -	\$ 660,000	\$ 10,130,000	\$ 675,000
Water Revenue Bonds	1,923,700	4,848,159	200,000	6,571,859	1,000
Capital Loan Notes	1,649,667	-	164,966	1,484,701	164,967
Long-Term Liabilities	<u>\$14,363,367</u>	<u>\$ 4,848,159</u>	<u>\$ 1,024,966</u>	<u>\$ 18,186,560</u>	<u>\$ 939,967</u>

Note 8 - TRANSFERS

The following is a summary of transfers between funds:

	General	Debt Service	Non Major Governmental	Sewer	Total Transfers Out
Employee Benefit	\$ 922,012	\$ -	\$ -	\$ -	\$ 922,012
Nonmajor Governmental	330,447	-	-	-	330,447
Urban Renewal	25,000	234,691	123,736	85,805	469,232
Total Transfers In	<u>\$1,277,459</u>	<u>\$234,691</u>	<u>\$ 123,736</u>	<u>\$ 85,805</u>	<u>\$ 1,721,691</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 9- PENSION AND RETIREMENT

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered payroll except for, public safety employees, in which case, the percentages are actuarially determined. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$143,610, \$134,426, and \$116,096, respectively, equal to the required contributions for each year.

Note 10- SPLIT FUNDING HEALTH INSURANCE PLAN

The City of Harlan, along with its' component unit, Harlan Municipal Utilities, has established a partially self-funded health insurance program. The plan is funded by City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for deductible amounts of \$2,000 to \$4,000 depending on the coverage selected by the employee.

Monthly payments of service fees, plan contributions, and claims for the City's split funding health insurance are recorded as expenditures in the City's Internal Service – Group Insurance Fund.

Claims payable and estimated claims incurred but not reported are recorded as a liability in the City's Internal Service – Group Insurance Fund.

	Prior Year	Current Year
Unpaid claims, beginning of fiscal year	\$ 11,475	\$ 24,037
Current year claims and changes in estimates	463,090	426,002
Claim payments	(450,528)	(429,014)
Unpaid claims, end of fiscal year	\$ 24,037	\$ 21,025

Note 11 - DEFICIT FUND EQUITY

The City has three funds with deficit equity balances at June 30, 2013. The City intends to finance these deficits from various resources including grant revenue and fund transfers.

The individual fund deficits were as follows:

Nonmajor – Airport Improvement	\$ 41,164
Nonmajor – GH Christiansen	53,949
Nonmajor – Internal Service - Group Insurance.....	21,025

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 12- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks, with the exception of vision and dental care, are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

Note 13- COMMITMENTS

There were no outstanding construction commitments at June 30, 2013.

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical, prescription drug, and dental benefits for retirees and their spouses. There are 33 active and 2 retired members in the plan. Covered individuals include any eligible individual employed by the City. Individuals retiring from service with the City are eligible under the Municipal Fire and Police Retirement System of Iowa (MFPRSI) or Iowa Public Employees Retirement System (IPERS). Retiring individual must have a minimum of four years of experience with the City as well as be at least 55 years of age. Coverage ceases upon reaching age 65 or the individual becomes eligible for Medicare.

The medical, prescription drug, and dental coverage is provided through a self-insured plan with Employee Benefit Systems. Retirees under age 65 pay the full amount of the premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Monthly medical premiums for active members are \$562 for single coverage and \$1,252 for family coverage. Monthly dental premiums for active members are \$26 for single coverage and \$55 for family coverage. The same monthly premiums apply to retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 47,490
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
<hr/>	
Annual OPEB cost	47,490
Contributions made	(10,412)
<hr/>	
Increase in net OPEB obligation	37,078
Net OPEB obligation beginning of year	37,078
<hr/>	
Net OPEB obligation end of year	\$ 74,156

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 47,490	21.9%	\$ 37,078
June 30, 2013	\$ 47,490	21.9%	\$ 37,078

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$317,393, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$317,393. The covered payroll (annual payroll of active employees covered by the plan) was \$1,440,117 and the ratio of the UAAL to covered payroll was 22.0%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan

CITY OF HARLAN, IOWA
Notes to Financial Statements
June 30, 2013

Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The ultimate medical trend rate is 8.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate rate.

Mortality rates are from the 2004 United States Life Tables. Annual termination probabilities were developed from specific aged-based data from GASB Statement 45. Annual retirement probabilities were developed based on the historical average age for the covered group.

Projected claim costs of the medical plan are \$11,676 per year for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 15 - PRIOR PERIOD ADJUSTMENT

In previous years bond issuance costs were deferred and amortized over the term of the bonds. In 2013 the City implemented Governmental Accounting Standards Board statement 65 requiring these costs to be recognized in the period the loan was originated. A prior period adjustment was reported on the financial statements to recognize the effect of the removal of the unamortized bond issuance costs. The prior period adjustment decreased the beginning balance of the net position of the governmental activities by \$51,414 and decreased the beginning balance net position in the business type activities by \$60,683 in the sewer fund.

Note 16 - FORGIVABLE LOANS

The City offers forgivable loans to new businesses in Harlan. The purpose of the loan is to stimulate the local economy and encourage local businesses to create and maintain new jobs within Harlan. If the business does not maintain the required number of full-time equivalent positions as stipulated in the agreement, the City penalizes the business until the number of jobs returns to the required minimum in the agreement. If the business meets the requirements throughout, the loan is forgiven at the end of the contract period.

In October 2008, the City issued a forgivable loan in the amount of \$16,800 to Superior Midwest Foods. The agreement requires to creation of 30 full-time equivalent positions with 19 to be created by December 31, 2011 and 11 more positions to be created by the end of the contract on December 31, 2016. On June 5, 2012, Superior Midwest dissolved operations. As of June 30, 2013 the City collected \$13,860, of the loan. The remainder was forgiven.

In October 2011, the City issued a forgivable loan in the amount of \$30,000 to Elite. The agreement requires the company to maintain 20 full-time equivalent positions for 3 years until October 2014. As of June 30, 2013, Elite has met the requirements of the loan and therefore, no receivable has been recorded at year end.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
Governmental Funds and Proprietary Funds
For the Year Ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Taxes	\$ 2,295,292	\$ -
Special Assessments	1,639	-
Tax Increment Financing	700,677	-
Other City Taxes	554,060	-
Licenses and Permits	79,537	-
Intergovernmental Revenue	886,481	-
Charges for Services	464,892	14,795,083
Payments in Lieu of Taxes	299,052	-
Fines and Forfeits	18,999	-
Contributions	38,213	-
Revenue from Use of Property	72,819	-
Interest on Investments	7,632	51,631
Miscellaneous	98,598	-
Total Revenue	5,517,891	14,846,714
Disbursements:		
Public Safety	1,167,465	-
Public Works	1,202,730	-
Culture and Recreation	825,280	-
Community and Economic Development	307,893	-
General Government	740,519	-
Capital Projects	220,408	-
Debt Service	781,661	-
Business-Type Activities	-	20,412,620
Total Expenditures	5,245,956	20,412,620
Excess (deficiency) of receipts over disbursements	271,935	(5,565,906)
Other financing sources (uses):		
Proceeds from Debt Issuance	2,751,145	4,848,159
Proceeds of Capital Asset Sales	97,123	32,036
Transfers In	1,635,886	85,805
Transfers Out	(1,721,691)	-
Total other financing sources (uses)	2,762,463	4,966,000
Net Change in Balances	3,034,398	(599,906)
Balances - beginning of year	907,388	17,731,522
Balances - end of year	\$ 3,941,786	\$ 17,131,616

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 2,295,292	\$ 2,244,788	\$ 2,244,788	\$ 50,504
1,639	500	500	1,139
700,677	701,650	701,650	(973)
554,060	558,236	558,236	(4,176)
79,537	19,800	19,800	59,737
886,481	858,631	858,631	27,850
15,259,975	16,891,612	16,891,612	(1,631,637)
299,052	-	-	299,052
18,999	-	-	18,999
38,213	-	-	38,213
72,819	149,000	149,000	(76,181)
59,263	-	-	59,263
98,598	87,385	87,385	11,213
<u>20,364,605</u>	<u>21,511,602</u>	<u>21,511,602</u>	<u>(1,146,997)</u>
1,167,465	1,131,642	1,131,642	(35,823)
1,202,730	1,269,078	1,269,078	66,348
825,280	917,830	917,830	92,550
307,893	60,000	60,000	(247,893)
740,519	698,640	728,640	(11,879)
220,408	60,000	60,000	(160,408)
781,661	727,579	1,106,616	324,955
20,412,620	19,837,826	21,190,826	778,206
<u>25,658,576</u>	<u>24,702,595</u>	<u>26,464,632</u>	<u>806,056</u>
<u>(5,293,971)</u>	<u>(3,190,993)</u>	<u>(4,953,030)</u>	<u>(340,941)</u>
7,599,304	-	-	7,599,304
129,159	-	-	129,159
1,721,691	1,937,158	1,937,158	(215,467)
(1,721,691)	(1,937,158)	(1,937,158)	215,467
<u>7,728,463</u>	<u>-</u>	<u>-</u>	<u>7,728,463</u>
2,434,492	(3,190,993)	(4,953,030)	7,387,522
<u>18,638,910</u>	<u>18,590,889</u>	<u>18,590,889</u>	<u>48,021</u>
<u>\$ 21,073,402</u>	<u>\$ 15,399,896</u>	<u>\$ 13,637,859</u>	<u>\$ 7,435,543</u>

CITY OF HARLAN, IOWA
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
For the Year Ended June 30, 2013

	Cash Basis	Accrual Adjustments	Modified/Full Accrual Basis
Revenue:			
Taxes	\$ 2,995,969	\$ 505,044	\$ 3,501,013
Special Assessments	1,639	-	1,639
Other City Taxes	554,060	(554,060)	-
Licenses and Permits	79,537	(3)	79,534
Intergovernmental Revenue	886,481	(26,169)	860,312
Charges for Services	15,259,975	(183,377)	15,076,598
Payments in Lieu of Taxes	299,052	2,400	301,452
Fines and Forfeits	18,999	-	18,999
Contributions	38,213	(427)	37,786
Refunds/Reimbursements	-	8,934	8,934
Revenue from Use of Property	72,819	-	72,819
Interest on Investments	59,263	202	59,465
Miscellaneous	98,598	(23,913)	74,685
Total Revenue	<u>20,364,605</u>	<u>(271,369)</u>	<u>20,093,236</u>
Expenditures/Expenses:			
Public Safety	1,167,465	(4,745)	1,162,720
Public Works	1,202,730	(70,672)	1,132,058
Culture and Recreation	825,280	(1,445)	823,835
Community and Economic Development	307,893	107,792	415,685
General Government	740,519	31,187	771,706
Capital Projects	220,408	(99,173)	121,235
Debt Service	781,661	(7,698)	773,963
Business-Type Activities	20,412,620	(7,407,413)	13,005,207
Total Expenditures/Expenses	<u>25,658,576</u>	<u>(7,452,167)</u>	<u>18,206,409</u>
Excess (Deficiency) of Revenues Over Expenditures/Expenses	<u>(5,293,971)</u>	<u>7,180,798</u>	<u>1,886,827</u>
Other financing sources (uses):			
Proceeds from Debt Issuance	7,599,304	(4,784,304)	2,815,000
Proceeds of Capital Asset Sales	129,159	(13,956)	115,203
Transfers In	1,721,691	-	1,721,691
Transfers Out	(1,721,691)	-	(1,721,691)
Total other financing sources (uses)	<u>7,728,463</u>	<u>(4,798,260)</u>	<u>2,930,203</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures/Expenses and Other (Uses)	2,434,492	2,382,538	4,817,030
Fund Balance/Retained Earnings - beginning of year	<u>18,638,910</u>	<u>17,285,973</u>	<u>35,924,883</u>
Fund Balance/Retained Earnings - end of year	<u>\$21,073,402</u>	<u>\$ 19,668,511</u>	<u>\$ 40,741,913</u>

CITY OF HARLAN, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Funds, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. During the year ended June 30, 2013, one budget amendment was adopted increasing budgeted disbursements by \$1,762,037.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department.

During the fiscal year ended June 30, 2013, disbursements exceeded the amounts budgeted in the Public Safety, Community and Economic Development and Capital Projects functions.

CITY OF HARLAN, IOWA
Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	-	\$ 317,393	\$ 317,393	0.00%	\$1,440,000	22.0%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,440,000	22.0%

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2013

	Special Revenue		
	Road Use Tax	Local Option Sales Tax	Library Building
Assets			
Cash and Cash Equivalents	\$ 114,241	\$ 85,084	\$ 7,661
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	-	-	-
Due from Other Funds	-	-	-
Due from Other Governmental Agencies	41,815	75,678	-
Inventories	39,074	-	-
Total Assets	195,130	160,762	7,661
Liabilities			
Accounts Payable	-	-	-
Accrued Wages	7,622	-	-
Due to Other Funds	-	-	-
Total Liabilities	7,622	-	-
Fund Balances			
Non-Spendable:			
Inventories	39,074	-	-
Restricted:			
Local Option Sales Tax Purposes	-	160,762	-
Streets	148,434	-	-
Assigned:			
Capital Projects	-	-	7,661
Unassigned	-	-	-
Total Fund Balances	187,508	160,762	7,661
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 195,130	\$ 160,762	\$ 7,661

Capital Projects						
College Park Plaza	Activity Center	Street Overlay	GH Christiansen Subdivision	Airport Improvement		
\$ 21,491	\$ 24,706	\$ 3,077	\$ -	\$ -		
-	-	-	-	-		
-	-	-	-	-		
-	-	-	-	-		14,992
21,491	24,706	3,077	-	-		14,992
-	-	-	-	-		34,398
-	-	-	-	-		-
-	-	-	-	53,949		21,758
-	-	-	-	53,949		56,156
-	-	-	-	-		-
-	-	-	-	-		-
-	-	-	-	-		-
21,491	24,706	3,077	-	-		-
-	-	-	(53,949)	(41,164)		
21,491	24,706	3,077	(53,949)	(41,164)		
\$ 21,491	\$ 24,706	\$ 3,077	\$ -	\$ 14,992		

CITY OF HARLAN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2013

	Capital Projects		Total Governmental Nonmajor Funds
	Housing Rehab 1998	Industrial Park	
Assets			
Cash and Cash Equivalents	\$ -	\$ 429,895	\$ 686,155
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	-	150	150
Due from Other Funds	-	83,597	83,597
Due from Other Governmental Agencies	-	-	132,485
Inventories	-	-	39,074
Total Assets	-	513,642	941,461
Liabilities:			
Accounts Payable	-	-	34,398
Accrued Wages	-	-	7,622
Due to Other Funds	-	-	75,707
Total Liabilities	-	-	117,727
Fund Balances			
Non-Spendable:			
Inventories	-	-	39,074
Restricted:			
Local Option Sales Tax Purposes	-	-	160,762
Streets	-	-	148,434
Assigned:			
Capital Projects	-	513,642	570,577
Unassigned	-	-	(95,113)
Total Fund Balances	-	513,642	823,734
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ -	\$ 513,642	\$ 941,461

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended June 30, 2013

	Special Revenue		Capital Projects
	Road Use Tax	Local Option Sales Tax	Library Building
Revenue:			
Taxes	\$ -	\$ 512,572	\$ -
Intergovernmental Revenue	495,074	-	-
Contributions	-	-	-
Miscellaneous	-	-	-
Total Revenue	<u>495,074</u>	<u>512,572</u>	<u>-</u>
Expenditures:			
Public Works	426,515	29,000	-
Culture and Recreation	-	22,500	-
Community and Economic Development	-	-	-
General Government	-	54,947	-
Capital Projects	-	-	-
Total Expenditures	<u>426,515</u>	<u>106,447</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>68,559</u>	<u>406,125</u>	<u>-</u>
Other financing sources (uses):			
Proceeds from Sale of Capital Assets	-	-	-
Transfers In	-	-	-
Transfers Out	-	(330,447)	-
Total other financing sources (uses)	<u>-</u>	<u>(330,447)</u>	<u>-</u>
Net Change in Fund Balance	68,559	75,678	-
Fund balances (deficits) -beginning of year	118,949	85,084	7,661
Prior Period Adjustments	-	-	-
Fund balances (deficits) -beginning of year (as restated)	<u>118,949</u>	<u>85,084</u>	<u>7,661</u>
Fund balances (deficits) - end of year	<u>\$ 187,508</u>	<u>\$ 160,762</u>	<u>\$ 7,661</u>

Capital Projects				
College Park Plaza	Activity Center	Street Overlay	GH Christiansen Subdivision	Airport Improvement
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	50,000	98,019
-	1,106	-	-	-
-	427	-	-	-
-	1,533	-	50,000	98,019
-	-	-	-	-
-	6,059	-	-	-
-	-	-	-	-
-	-	-	-	121,235
-	6,059	-	-	121,235
-	(4,526)	-	50,000	(23,216)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	(4,526)	-	50,000	(23,216)
21,491	29,232	3,077	(103,949)	(17,948)
-	-	-	-	-
21,491	29,232	3,077	(103,949)	(17,948)
\$ 21,491	\$ 24,706	\$ 3,077	\$ (53,949)	\$ (41,164)

**CITY OF HARLAN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended June 30, 2013**

	Capital Projects		Total Governmental Nonmajor Funds
	Housing Rehab 1998	Industrial Park	
Revenue:			
Taxes	\$ -	\$ -	512,572
Intergovernmental Revenue	90,888	-	733,981
Contributions	-	-	1,106
Miscellaneous	-	22,455	22,882
Total Revenue	90,888	22,455	1,270,541
Expenditures:			
Public Works	-	-	455,515
Culture and Recreation	-	-	28,559
Community and Economic Development	90,888	18,733	109,621
General Government	-	-	54,947
Capital Projects	-	-	121,235
Total Expenditures	90,888	18,733	769,877
Excess (deficiency) of revenues over expenditures	-	3,722	500,664
Other financing sources (uses):			
Proceeds from Sale of Capital Assets	-	92,048	92,048
Transfers In	-	123,736	123,736
Transfers Out	-	-	(330,447)
Total other financing sources (uses)	-	215,784	(114,663)
Net Change in Fund Balance	-	219,506	386,001
Fund balances (deficits) -beginning of year	25,000	294,136	462,733
Prior Period Adjustments	(25,000)	-	(25,000)
Fund balances (deficits) -beginning of year, as restated	-	294,136	437,733
Fund balances (deficits) - end of year	\$ -	\$ 513,642	\$ 823,734

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF NET POSITION
Internal Service Funds
June 30, 2013

	Equipment Revolving	Group Insurance	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 398,595	\$ -	\$ 398,595
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	32,822	-	32,822
Due from Other Governmental Agencies	4,325	-	4,325
Total Current Assets	<u>435,742</u>	<u>-</u>	<u>435,742</u>
Noncurrent Assets			
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	1,193,229	-	1,193,229
Total Noncurrent Assets	<u>1,193,229</u>	<u>-</u>	<u>1,193,229</u>
Total Assets	<u>1,628,971</u>	<u>-</u>	<u>1,628,971</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	54,572	-	54,572
Due to Other Funds	32,822	-	32,822
Claims Incurred But Not Reported	-	21,025	21,025
Total Liabilities	<u>87,394</u>	<u>21,025</u>	<u>108,419</u>
NET POSITION			
Net Investment in Capital Assets	1,193,229	-	1,193,229
Unrestricted	348,348	(21,025)	327,323
Total Net Position	<u>\$ 1,541,577</u>	<u>\$ (21,025)</u>	<u>\$1,520,552</u>

CITY OF HARLAN, IOWA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Internal Service Funds
For the Year Ended June 30, 2013

	Equipment Revolving	Group Insurance	Total
Operating Revenues:			
Charges for Services	\$ 235,027	\$ -	\$ 235,027
Miscellaneous	12,685	-	12,685
Reimbursement from Employees/Insurance	-	932,331	932,331
Total Operating Revenue	<u>247,712</u>	<u>932,331</u>	<u>1,180,043</u>
Operating Expenses:			
Public Safety	21,926	-	21,926
Public Works	34,575	-	34,575
Culture and Recreation	29,207	-	29,207
General Government	13,173	929,319	942,492
Depreciation	215,909	-	215,909
Total Operating Expenses	<u>314,790</u>	<u>929,319</u>	<u>1,244,109</u>
Operating Income (Loss)	(67,078)	3,012	(64,066)
Non-Operating Income:			
Gain on Disposition of Property	-	-	-
Other Non-Operating Revenues	-	-	-
Total Non-Operating Income	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(55,023)</u>	<u>3,012</u>	<u>(52,011)</u>
Net Position (Deficit)- Beginning	<u>1,596,600</u>	<u>(24,037)</u>	<u>1,572,563</u>
Net Position (Deficit) - Ending	<u>\$ 1,541,577</u>	<u>\$ (21,025)</u>	<u>\$ 1,520,552</u>

CITY OF HARLAN, IOWA
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the Year Ended June 30, 2013

	Equipment Revolving	Group Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 197,880	\$ 932,331	\$ 1,130,211
Cash Paid to Suppliers for Goods and Services	(74,108)	-	(74,108)
Cash Paid to Employees for Services	-	(932,331)	(932,331)
Other Income	12,685	-	12,685
Net Cash (Used) by Operating Activities	<u>136,457</u>	<u>-</u>	<u>136,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(216,593)	-	(216,593)
Proceeds from Sale of Capital Assets	2,002	-	2,002
Proceeds from Grant	10,053	-	10,053
Net Cash (Used) for Capital and Related Financing Activities	<u>(204,538)</u>	<u>-</u>	<u>(204,538)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Due From (To) Other Funds	32,822	-	32,822
Net Cash Provided (Used) for Non-Capital Financing Activities	<u>32,822</u>	<u>-</u>	<u>32,822</u>
Net (Decrease) in Cash and Cash Equivalents	(35,259)	-	(35,259)
Cash and Cash Equivalents at Beginning of Year	<u>433,854</u>	<u>-</u>	<u>433,854</u>
Cash and Cash Equivalents at End of Year	<u><u>398,595</u></u>	<u><u>-</u></u>	<u><u>398,595</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	<u>(67,078)</u>	<u>3,012</u>	<u>(64,066)</u>
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	215,909	-	215,909
(Increase) Decrease in Assets:			
Accounts Receivable	(37,147)	-	(37,147)
Increase (Decrease) in Liabilities			
Accounts Payable	24,773		24,773
Claims Incurred But Not Reported	-	(3,012)	(3,012)
Total Adjustments	<u>203,535</u>	<u>(3,012)</u>	<u>200,523</u>
Net Cash Provided by Operating Activities	<u><u>\$ 136,457</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 136,457</u></u>

CITY OF HARLAN, IOWA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
Fiduciary Funds
June 30, 2013

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013
FLEX SPENDING				
ASSETS				
Cash and Cash Equivalents	\$ 280	\$ 8,327	\$ 7,636	\$ 971
Total Assets	280	8,327	7,636	971
LIABILITIES				
Other Payables	280	8,327	7,636	971
Total Liabilities	\$ 280	\$ 8,327	\$ 7,636	\$ 971

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF CHANGES IN NET POSITION
 Fiduciary Funds
 For the Year Ended June 30, 2013

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
Additions						
Contributions	\$ -	\$ 7,010	\$ -	\$ 5,247	\$ -	\$ 12,257
Total Additions	-	7,010	-	5,247	-	12,257
Deductions						
Public Safety	-	-	-	3,567	-	3,567
Culture and Recreation	121	6,796	-	-	-	6,917
Total Deductions	121	6,796	-	3,567	-	10,484
Changes in Net Position	(121)	214	-	1,680	-	1,773
Net Positon Beginning of Year	392	8,862	12,995	2,715	1,683	26,647
Net Position End of Year	\$ 271	\$ 9,076	\$ 12,995	\$ 4,395	\$ 1,683	\$ 28,420

CITY OF HARLAN, IOWA
 COMBINING STATEMENT OF CHANGES IN NET POSITION
 Fiduciary Funds
 For the Year Ended June 30, 2013

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
Additions						
Contributions	\$ -	\$ 7,010	\$ -	\$ 5,247	\$ -	\$ 12,257
Total Additions	-	7,010	-	5,247	-	12,257
Deductions						
Public Safety	-	-	-	3,567	-	3,567
Culture and Recreation	121	6,796	-	-	-	6,917
Total Deductions	121	6,796	-	3,567	-	10,484
Changes in Net Position	(121)	214	-	1,680	-	1,773
Net Positon Beginning of Year	392	8,862	12,995	2,715	1,683	26,647
Net Position End of Year	\$ 271	\$ 9,076	\$ 12,995	\$ 4,395	\$ 1,683	\$ 28,420

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2013

Part I: Summary of the Independent Auditors' Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Material Weakness:

II-A-13 **Financial Reporting**

Observation - During the audit, we identified material amounts of receivables and payables not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all receivables and payables are identified and included in the City's financial statements.

Response – We will double check these in the future to avoid any missing receivables and payables.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

III-A-13 - Certified Budget – Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the Public Safety, Community and Economic Development and Capital Projects functions.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-13 - Questionable Expenditures - We noted no questionable expenditures during our audit.

III-C-13 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

III-D-13 - Business Transactions – There were no business transactions between the City and City officials identified during the audit.

CITY OF HARLAN, IOWA
Schedule of Findings
For the Year Ended June 30, 2013

Part III: Other Findings Related to Statutory Reporting (Continued):

- III-E-13 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.

- III-F-13 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.

- III-G-13 - Cash and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

- III-H-13 Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Members of the City Council
City of Harlan, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Harlan, Iowa's basic financial statements and have issued our report thereon dated December 4, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Harlan Municipal Utilities, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting:

In planning and performing our audit of the financial statements, we considered the City of Harlan, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlan, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detects and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

City of Harlan, Iowa's Response to Findings

City of Harlan, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. The City of Harlan, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
December 4, 2013